

Message Text

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PAGE 01 CANBER 05407 161101Z

51

ACTION EA-14

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SUBJ: ECONOMIC POLICY DEVELOPMENTS - AUSTRALIA

REF: (A) CANBERRA 5207 (PARAS 7-10) (B) CANBERRA 4769

1. SUMMARY: ANTICIPATED DOWNTURN IN DEMAND FOR LABOR CONFIRMED IN OFFICIAL EMPLOYMENT FIGURES FOR JULY RELEASED AUGUST 11 SHOWING SHARP RISE IN REGISTERED UNEMPLOYED. ON FOLLOWING DAY KEY ALP PARLIAMENTARY CAUCUS ECONOMIC COMMITTEE ENDORSED FOR INCLUSION IN SEPTEMBER BUDGET SERIES OF POLICY PROPOSALS BY DEPPRIMIN CAIRNS FOCUSING ON COST RATHER THAN DEMAND ELEMENTS OF PRESENT INFLATION. GOVERNMENT-SPONSORED AIDC BILL AGAIN DEFEATED IN SENATE, BUT TRADE PRACTICES BILL PASSED. FOLLOWING AUGUST 13 CONFERENCE, FEDERAL GOVERNMENT AND STATE GOVERNMENTS REMAIN ESSENTIALLY AT STANDOFF ON COORDINATION OF INFLATION CONTROL MEASURES. END SUMMARY.

2. JULY EMPLOYMENT FIGURES, PUBLISHED AUGUST 11, CONFIRMED WHAT HAD LIMITED OFFICIAL USE

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PAGE 02 CANBER 05407 161101Z

BEEEN ANTICIPATED FOR SOME WEEKS AS TO DECLINING DEMAND FOR LABOR.

THE NUMBER OF UNEMPLOYED INCREASED SLIGHTLY MORE THAN 18 PCT. FROM JUNE TO OVER 93,000 WHILE UNFILLED VACANCIES DECLINED BY THE SAME PERCENTAGE TO 50,000. ALTHOUGH UNEMPLOYMENT RATE THEREBY RAISED ONLY SLIGHTLY FROM 1.34 PCT. TO 1.59 PCT., SUCH A SHARP INCREASE IN JULY IS UNUSUAL AND ESTABLISHES A TREND WHICH TRADE UNION MOVEMENT CAN BE EXPECTED TO EXPLOIT IN ARGUMENT AGAINST INCREASING DEMAND RESTRAINT MEASURES. IN THIS CONTEXT, ALP PARLIAMENTARY CAUCUS ECONOMIC COMMITTEE APPROVED SERIES OF MEASURES PROPOSED BY DEPUTY PRIME MINISTER CAIRNS TO BE CONSIDERED BY CABINET FOR INCLUSION IN FORTHCOMING BUDGET. THESE CONCENTRATED ON COST-PUSH AND POINTEDLY AVOIDED MEASURES TO DAMPEN OVERALL DEMAND. CAIRNS' PROPOSALS INCLUDED:

- (A) PENALTY TAXES ON COMPANIES GRANTING EXCESSIVE WAGE INCREASES,
- (B) PRICES JUSTIFICATION TRIBUNAL POWER TO DENY PRICE INCREASES BASED ON EXCESSIVE WAGE AWARDS,
- (C) A PENALTY TAX ON PERSONAL INCOME INCREASES BEYOND ACCEPTABLE LEVELS,
- (D) A TOUGH CAPITAL GAINS TAX,
- (E) WAGE INCREASES TO BE BASED ON INDEXATION PLUS A PRODUCTIVITY ELEMENT,
- (F) REDUCTIONS OR NO INCREASES IN SALES AND EXCISE TAXES,
- (G) CONTINGENCY PROPOSALS TO REINTRODUCE INVESTMENT ALLOWANCE IN EVENT OF HEAVY FALL IN DEMAND, AND
- (H) SELECTIVE EASING OF CREDIT SQUEEZE IN SUCH AREAS AS HOUSING.

ACCORDING TO PRESS REPORTS, THE CAUCUS COMMITTEE REJECTED DEMAND MANAGEMENT AS MAJOR TOOL FOR DEALING WITH CURRENT SITUATION, IN PARTICULAR PREVIOUS TREASURY PROPOSALS FOR SURTAX ON INCOMES OVER A\$6,000 PER YEAR OR A LARGE BUDGET SURPLUS. COMMITTEE ALSO STOPPED SHORT OF RECOMMENDING RESORT TO IMPORT QUOTAS OR TARIFF INCREASES TO STEM TIDE OF IMPORT COMPETITION.

3. THE GOA'S LONG-TERM ECONOMIC DEVELOPMENT STRATEGY SUFFERED A TEMPORARY SETBACK DURING THE WEEK WHEN BILL TO WIDEN THE POWERS OF THE AUSTRALIAN INDUSTRY DEVELOPMENT CORPORATION (AIDC), PREVIOUSLY REJECTED BY THE SENATE BEFORE THE MAY ELECTIONS, WAS DEFEATED IN THE NEW SENATE ON AUGUST 13 (CANBERRA 5320). OPPOSITION SENATORS APPARENTLY OPPOSED THE BILL ON PROCEDURAL GROUNDS BECAUSE IT HAD NOT BEEN REFERRED TO THE SENATE SELECT COMMITTEE ON FOREIGN LIMITED OFFICIAL USE

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PAGE 03 CANBER 05407 161101Z

OWNERSHIP AND CONTROL. BUT SINCE THE OPPOSITION VOTED FOR THE BILL IN THE HOUSE, IT WILL PROBABLY EVENTUALLY BE PASSED WHEN IT IS REINTRODUCED IN THE SENATE AFTER THE MANDATORY 3 MONTHS WAIT.

4. ON AUGUST 15 TOUGH TRADE PRACTICES BILL NARROWLY PASSED IN SENATE. ALTHOUGH THIS WILL HAVE LIMITED NEAR TERM IMPACT ON CURRENT INFLATION, IT WILL CONTRIBUTE TO GOVERNMENT'S LONG-RANGE ABILITY TO DEAL WITH RESTRICTIVE TRADE PRACTICES AND ADMINISTERED

PRICING. (WILL BE REPORTED SEPTTEL.)

5. RESULTS OF AUGUST 13 CONFERENCE BETWEEN PRIME MINISTER AND SIX STATE PREMIERS ON A COMMON APPROACH TO INFLATION WERE MINIMAL. ALTHOUGH PARTICIPANTS AGREED TO ESTABLISH WORKING PARTIES TO EXAMINE STATE PROPOSALS ON WAGE INDEXATION AND RELATED DEVICES AT THE STATE LEVEL, PRIME MINISTER REFUSED TO GRANT ADDITIONAL FUNDS TO COVER STATE DEFICITS, A PROPOSAL WHICH SEEMS TO HAVE BEEN PART OF THE PACKAGE ADVANCED BY STATE GOVERNMENTS. IN ANY EVENT, STATE LEGISLATION WOULD BE INVOLVED AND IT IS UNLIKELY THAT ALL SIX STATES COULD PUSH MEASURES THROUGH IN TIME TO HAVE APPRECIABLE EFFECT ON THE CURRENT PROBLEMS.

6. COMMENT: WITH CAUCUS COMMITTEE APPROVAL OF CAIRNS' PROPOSALS, ALP SEEMS TO HAVE RECOVERED FROM ECONOMIC POLICY DISARRAY EVIDENT FOLLOWING THE "MINI-BUDGET" PRESENTATION BY TREASURER CREAN ON JULY 23 (REF B). CAIRNS' PROGRAM -- ITS ECONOMIC EFFICACY ASIDE -- AT LEAST IS A COHERENT PACKAGE, MORE LIKELY TO MEET FULL CAUCUS AND UNION ACCEPTANCE THAN ABORTIVE CREAN EFFORT OF JULY 23. ALSO OF INTEREST IN ITSELF IS THE DOMINANT PART OF CAIRNS IN ADVANCING THESE LATEST POLICY PROPOSALS. ALTHOUGH TREASURER CREAN WAS PRESENT AT THE CAUCUS MEETING, IT WAS TO PLAY A PASSIVE ROLE. CREAN'S TREASURY HAS COME UNDER INCREASING CRITICISM ON GROUNDS THAT ITS PROPOSALS TO CONTINUE TO TREAT AUSTRALIAN INFLATION AS DEMAND PHENOMENON DEAL WITH WRONG PROBLEM. CAIRNS' RECOMMENDATIONS CONFORM WITH STATED TRADE UNION VIEWS AND SEEM FAR MORE LIKELY OF ACCEPTANCE BY FULL CAUCUS AND EVENTUAL INCLUSION IN BUDGET FINALLY PRESENTED IN SEPTEMBER.
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